

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended February 28, 2006

# AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Village of Breckenridge	<b>County</b> Gratiot
<b>Audit Date</b> February 28, 2006	<b>Opinion Date</b> March 22, 2006	<b>Date Accountant Report Submitted to State:</b> March 22, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- yes  no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- yes  no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- yes  no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- yes  no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- yes  no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- yes  no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- yes  no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- yes  no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- yes  no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

<b>We have enclosed the following:</b>	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
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<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.			

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-5
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	6-7
Government-wide Statement of Activities	8
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	9
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets	10
Statement of Revenues, Expenditures, and Changes in Fund Balances	11-12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Business Type Funds:	
Statement of Net Assets	14
Statement of Revenues, Expenses, and Changes in Net Assets	15
Statement of Cash Flows	16-17
Notes to Financial Statements	18-32

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

TABLE OF CONTENTS

Required Supplemental Information:

Budgetary Comparison Schedule- General Fund	33-34
Budgetary Comparison Schedule- Major Street Fund	35
Budgetary Comparison Schedule- Local Street Fund	36
Budgetary Comparison Schedule- Library Fund	37
Budgetary Comparison Schedule- Cemetery Fund	38

Other Supporting Information:

Combining Balance Sheet- All Special Revenue Funds	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- All Special Revenue Funds	40-41

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	42-43
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# CAMPBELL, KUSTERER & CO., P.C.

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March 22, 2006

## INDEPENDENT AUDITOR'S REPORT

To the Village Council  
Village of Breckenridge  
Gratiot County, Michigan

We have audited the accompanying financial statements of the governmental activities, business type activities and each major fund of the Village of Breckenridge, Gratiot County, Michigan, as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Breckenridge's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities and each major fund of the Village of Breckenridge, Gratiot County, Michigan, as of February 28, 2006, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America..

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2006, on our consideration of the Village of Breckenridge's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*, as of March 1, 2005.

To the Village Council  
Village of Breckenridge  
Gratiot County, Michigan  
Page 2

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the general Village's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co, P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended February 28, 2006

The Management's Discussion and Analysis report of the Village of Breckenridge covers the Village's financial performance during the year ended February 28, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at February 28, 2006 totaled \$1,323,963.74 for governmental activities and \$1,240,439.66 for business-type activities. Overall total capital assets remained approximately the same.

Overall revenues were \$1,179,915.57 (\$891,466.59 from governmental activities and \$288,448.98 from business-type activities). Governmental activities had a \$70,521.71 increase in net assets. Business-type activities had a decrease in net assets of \$30,836.95.

We entered into a new contract payable of \$22,000.00 for a new police vehicle.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
For the year ended February 28, 2006

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Village are reported as governmental activities and business-type activities. These include the General Fund, the Major Street Fund, the Local Street Fund, the Library Fund, the Cemetery Fund, the Water Fund and the Sewer Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Council may also create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

**Governmental Funds:** Some of the Village's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Village's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Village's governmental funds include the General Fund, the Major Street Fund, the Local Street Fund, the Library Fund, and the Cemetery Fund.

**Business Type Funds:** The Village has a Water Fund and a Sewer Fund which includes the activity of providing water and sewer to Village residents.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Our cash position in both the governmental and business-type activities remains strong.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended February 28, 2006

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The General Fund had an increase in fund balance of \$39,307.90. The Major Street Fund had an increase in fund balance of \$18,234.95. The Local Street Fund had an increase in fund balance of \$13,017.60. The Cemetery Fund had an increase in fund balance of \$1,460.23 and the Library Fund had a decrease in fund balance of \$17,175.49.

The Water Fund had a decrease in net assets of \$9,645.96 and the Sewer Fund had a decrease in net assets of \$21,190.99.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Village's governmental activities invested \$43,188.74 in capital assets.  
The Village's business-type activities invested \$13,250.00 in capital assets.  
The Village's governmental activities paid \$14,823.78 of principal on long-term debt.  
The Village's business-type activities paid \$60,000.00 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors, investors and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions concerning this report please contact the Village Clerk or Village Treasurer at (989)842-3109.

Village of Breckenridge  
Gratiot County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
February 28, 2006

ASSETS:	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>CURRENT ASSETS:</b>			
Cash on hand	400 00	-	400 00
Cash in bank	686 746 35	141 619 68	828 366 03
Accounts receivable	3 036 40	27 568 21	30 604 61
Special assessments receivable	-	5 897 55	5 897 55
Taxes receivable	21 947 44	-	21 947 44
Due from State of Michigan	<u>18 519 96</u>	<u>-</u>	<u>18 519 96</u>
Total Current Assets	<u>730 650 15</u>	<u>175 085 44</u>	<u>905 735 59</u>
Restricted Cash in Bank	<u>-</u>	<u>301 857 13</u>	<u>301 857 13</u>
<b>NON-CURRENT ASSETS:</b>			
Capital Assets	847 588 74	2 745 036 70	3 592 625 44
Less: Accumulated Depreciation	<u>(197 947 00)</u>	<u>(1 460 665 13)</u>	<u>(1 658 612 13)</u>
Total Non-current Assets	<u>649 641 74</u>	<u>1 284 371 57</u>	<u>1 934 013 31</u>
<b>TOTAL ASSETS</b>	<u><u>1 380 291 89</u></u>	<u><u>1 761 314 14</u></u>	<u><u>3 141 606 03</u></u>
<b>LIABILITIES AND NET ASSETS:</b>			
<b>LIABILITIES:</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	<u>11 978 64</u>	<u>874 48</u>	<u>12 853 12</u>
Accrued compensated absences	24 708 51	-	24 708 51
Current portion of long-term debt	<u>-</u>	<u>30 000 00</u>	<u>30 000 00</u>
Total Current Liabilities	<u>36 687 15</u>	<u>30 874 48</u>	<u>67 561 63</u>
<b>NON-CURRENT LIABILITIES:</b>			
Accrued compensated absences	2 201 76	-	2 201 76
Contract payable	17 439 24	-	17 439 24
Bonds payable, net of current portion	<u>-</u>	<u>490 000 00</u>	<u>490 000 00</u>
Total Non-current Liabilities	<u>19 641 00</u>	<u>490 000 00</u>	<u>509 641 00</u>
Total Liabilities	<u><u>56 328 15</u></u>	<u><u>520 874 48</u></u>	<u><u>577 202 63</u></u>

The accompanying notes are an integral part of these financial statements.

Village of Breckenridge  
Gratiot County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
February 28, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	632 202 50	764 371 57	1 396 574 07
Restricted	120 513 40	301 857 13	422 370 53
Unrestricted	<u>571 247 84</u>	<u>174 210 96</u>	<u>745 458 80</u>
Total Net Assets	<u>1 323 963 74</u>	<u>1 240 439 66</u>	<u>2 564 403 40</u>
TOTAL LIABILITIES AND NET ASSETS	<u>1 380 291 89</u>	<u>1 761 314 14</u>	<u>3 141 606 03</u>

The accompanying notes are an integral part of these financial statements.

Village of Breckenridge  
 Gratiot County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Year ended February 28, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
Legislative	27 337 26	-	(27 337 26)
General government	237 636 72	56 684 11	(180 952 61)
Public safety	226 656 13	6 449 08	(220 207 05)
Public works	210 245 05	58 260 85	(151 984 20)
Recreation and culture	117 565 54	74 489 11	(43 076 43)
Interest on long-term debt	1 504 18	-	(1 504 18)
	<u>820 944 88</u>	<u>195 883 15</u>	<u>(625 061 73)</u>
Total Governmental Activities			
Business -Type Activities:			
Water and Sewer	324 537 13	288 448 98	-
	<u>324 537 13</u>	<u>288 448 98</u>	<u>-</u>
Total Business-Type Activities			
Total Government	<u>1 145 482 01</u>	<u>484 332 13</u>	<u>(625 061 73)</u>
General Revenues:			
Property taxes			321 974 20
State revenue sharing			277 518 19
Interest			11 086 41
Miscellaneous			85 004 64
			<u>695 583 44</u>
Total General Revenues			
Change in net assets			70 521 71
Net assets, beginning of year			<u>1 253 442 03</u>
Net Assets, End of Year			<u>1 323 963 74</u>

The accompanying notes are an integral part of these financial statements.

<u>Business-Type Activities</u>	<u>Total</u>
Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
-	(27 337 26)
-	(180 952 61)
-	(220 207 05)
-	(151 984 20)
-	(43 076 43)
-	(1 504 18)
<u>-</u>	<u>(625 061 73)</u>
<u>(36 088 15)</u>	<u>(36 088 15)</u>
<u>(36 088 15)</u>	<u>(36 088 15)</u>
<u>(36 088 15)</u>	<u>(661 149 88)</u>
-	321 974 20
-	277 518 19
5 251 20	16 337 61
-	85 004 64
<u>5 251 20</u>	<u>700 834 64</u>
(30 836 95)	39 684 76
<u>1 271 276 61</u>	<u>2 524 718 64</u>
<u><u>1 240 439 66</u></u>	<u><u>2 564 403 40</u></u>

Village of Breckenridge  
Gratiot County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS

February 28, 2006

<u>Assets</u>	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Library</u>
Cash on hand	200 00	-	-	200 00
Cash in bank	244 900 67	132 033 36	70 572 35	109 495 98
Taxes receivable	21 947 44	-	-	-
Accounts receivable	3 036 40	-	-	-
Due from State of Michigan	-	13 412 26	5 107 70	-
Due from other funds	-	-	1 543 23	-
Total Assets	<u>270 084 51</u>	<u>145 445 62</u>	<u>77 223 28</u>	<u>109 695 98</u>
 <u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	11 295 53	89 99	89 99	413 15
Due to other funds	-	1 543 23	-	-
Compensated absences	<u>24 708 51</u>	-	-	-
Total liabilities	<u>36 004 04</u>	<u>1 633 22</u>	<u>89 99</u>	<u>413 15</u>
Fund equity:				
Fund balances:				
Reserved	-	-	-	-
Unreserved:				
Undesignated	<u>234 080 47</u>	<u>143 812 40</u>	<u>77 133 29</u>	<u>109 282 83</u>
Total fund equity	<u>234 080 47</u>	<u>143 812 40</u>	<u>77 133 29</u>	<u>109 282 83</u>
Total Liabilities and Fund Equity	<u>270 084 51</u>	<u>145 445 62</u>	<u>77 223 28</u>	<u>109 695 98</u>

The accompanying notes are an integral part of these financial statements.

<u>Cemetery</u>	<u>Total</u>
-	400 00
129 743 99	686 746 35
-	21 947 44
-	3 036 40
-	18 519 96
-	1 543 23
<u>129 743 99</u>	<u>732 193 38</u>

89 98	11 978 64
-	1 543 23
-	24 708 51
<u>89 98</u>	<u>38 230 38</u>

120 513 40	120 513 40
<u>9 140 61</u>	<u>573 449 60</u>
<u>129 654 01</u>	<u>693 963 00</u>
<u>129 743 99</u>	<u>732 193 38</u>

Village of Breckenridge  
Gratiot County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
February 28, 2006

TOTAL FUND BALANCES -- GOVERNMENTAL FUNDS 693 963 00

Amounts reported for governmental activities in the statement of  
net assets are different because --

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost	847 588 74
Accumulated depreciation	<u>(197 947 00)</u>

Long-term debt liabilities are not due and payable in the current period and  
therefore are not reported in the governmental funds:

Accrued compensated absences	(2 201 76)
Contract payable	(17 439 24)

TOTAL NET ASSETS -- GOVERNMENTAL ACTIVITIES 1 323 963 74

The accompanying notes are an integral part of these financial statements.

Village of Breckenridge  
Gratiot County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended February 28, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Library</u>
<b>Revenues:</b>				
Property taxes	321 974 20	-	-	-
Licenses and permits	6 449 08	-	-	-
State revenue sharing	162 795 53	81 661 89	28 377 55	4 683 22
<b>Charges for services:</b>				
Cemetery	-	-	-	-
Library	-	-	-	5 540 64
Trash collection	58 260 85	-	-	-
Administrative	56 000 00	-	-	-
Tax collection	3 466 45	-	-	-
Fines and forfeits	2 918 69	-	-	68 948 47
Interest	3 999 49	331 21	174 42	3 861 78
Donations	6 150 00	-	-	2 515 00
Miscellaneous	16 044 42	-	-	4 295 22
<b>Total revenues</b>	<u>658 798 90</u>	<u>81 993 10</u>	<u>28 551 97</u>	<u>89 844 33</u>
<b>Expenditures:</b>				
<b>Legislative:</b>				
Village Council	27 337 26	-	-	-
<b>General government:</b>				
Village Manager	59 624 71	-	-	-
Financial administration	110 216 45	-	-	-
Village hall and grounds	33 991 50	-	-	-
Cemetery	-	-	-	-
<b>Public safety:</b>				
Police protection	209 501 31	-	-	-
Fire protection	8 976 67	-	-	-
Planning and zoning	4 178 15	-	-	-
<b>Public works:</b>				
Department of Public Works	66 330 88	-	-	-
Highways and Streets	-	45 146 11	34 146 41	-
Sanitation	54 755 65	-	-	-
<b>Culture and recreation:</b>				
Recreation	7 061 72	-	-	-
Library	-	-	-	107 019 82
Capital outlay	43 188 74	-	-	-
Debt service	16 327 96	-	-	-

The accompanying notes are an integral part of these financial statements.

<u>Cemetery</u>	<u>Total</u>
-	321 974 20
-	6 449 08
-	277 518 19
29 558 78	29 558 78
-	5 540 64
-	58 260 85
-	56 000 00
-	3 466 45
-	20 339 64
2 719 51	11 086 41
-	8 665 00
-	<u>20 339 64</u>
<u>32 278 29</u>	<u>891 466 59</u>
-	27 337 26
-	59 624 71
-	110 216 45
-	33 991 50
30 818 06	30 818 06
-	209 501 31
-	8 976 67
-	4 178 15
-	66 330 88
-	79 292 52
-	54 755 65
-	7 061 72
-	107 019 82
-	43 188 74
-	16 327 96

Village of Breckenridge  
Gratiot County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS

Year ended February 28, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Library</u>
Total expenditures	<u>641 491 00</u>	<u>45 146 11</u>	<u>34 146 41</u>	<u>107 019 82</u>
Excess (deficiency) of revenues over expenditures	<u>17 307 90</u>	<u>36 846 99</u>	<u>(5 594 44)</u>	<u>(17 175 49)</u>
Other financing sources (uses)				
Loan proceeds	22 000 00	(18 612 04)	-	-
Operating transfers in	-	-	18 612 04	-
Operating transfers out	<u>-</u>	<u>(18 612 04)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>22 000 00</u>	<u>(18 612 04)</u>	<u>18 612 04</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	39 307 90	18 234 95	13 017 60	-
Fund balances, March 1	<u>194 772 57</u>	<u>125 577 45</u>	<u>64 115 69</u>	<u>126 458 32</u>
Fund Balances, February 28	<u><u>234 080 47</u></u>	<u><u>143 812 40</u></u>	<u><u>77 133 29</u></u>	<u><u>109 282 83</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Cemetery</u>	<u>Total</u>
<u>30 818 06</u>	<u>858 621 40</u>
<u>1 460 23</u>	<u>32 845 19</u>
-	22 000 00
-	18 612 04
<u>-</u>	<u>(18 612 04)</u>
<u>-</u>	<u>22 000 00</u>
1 460 23	54 845 19
<u>128 193 78</u>	<u>639 117 81</u>
<u>1 630 946 59</u>	<u>693 963 00</u>

Village of Breckenridge  
Gratiot County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

Year ended February 28, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 54 845 19

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(20 336 00)
Capital Outlay	<u>43 188 74</u>

Repayment of debt principal is an expenditure in the governmental funds, the repayment does not have an effect in the statement of activities but does reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	<u>14 823 78</u>
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Loan proceeds is a revenue in the fund but it is not reported as revenue in the statement of activities although it does increase long-term debt in the statement of net assets.

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>70 521 71</u></u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

STATEMENT OF NET ASSETS – BUSINESS-TYPE FUNDS  
February 28, 2006

<u>Assets</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<b>Current Assets:</b>			
Cash in bank	80 698 05	60 921 63	141 619 68
Accounts receivable	8 894 49	18 673 72	27 568 21
Special assessments receivable	5 897 55	-	5 897 55
Internal balances	11 495 08	(11 495 08)	-
Total current assets	106 985 17	68 100 27	175 085 44
<b>Restricted assets:</b>			
Cash in bank	97 193 06	204 664 07	301 857 13
Total restricted assets	97 193 06	204 664 07	301 857 13
<b>Fixed assets:</b>			
Land	22 399 00	3 001 00	25 400 00
Plant, property and equipment	1 501 176 28	1 218 460 42	2 719 636 70
Total fixed assets	1 523 575 28	1 221 461 42	2 745 036 70
Less: accumulated depreciation	(915 305 02)	(545 360 11)	(1 460 665 13)
Net fixed assets	608 270 26	676 101 31	1 284 371 57
<b>Total Assets</b>	<u>812 448 49</u>	<u>948 865 65</u>	<u>1 761 314 14</u>
<u><b>Liabilities and Net Assets</b></u>			
<b>Current liabilities:</b>			
Accounts payable	391 32	483 16	874 48
Current portion of long-term debt	-	30 000 00	30 000 00
Total current liabilities	391 31	30 483 16	30 874 48
<b>Long-term Liabilities:</b>			
Bonds payable net of current portion	-	490 000 00	490 000 00
Total long-term liabilities	-	490 000 00	490 000 00
<b>Net Assets:</b>			
Invested in Capital Assets			
Net of Related Debt	608 270 26	156 101 31	764 371 57
Restricted	97 193 06	204 664 07	301 857 13
Unrestricted	106 593 85	67 617 11	174 210 96
Total net assets	812 057 17	428 382 49	1 240 439 66
<b>Total Liabilities and Net Assets</b>	<u>812 448 49</u>	<u>948 865 65</u>	<u>1 761 314 14</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
NET ASSETS – BUSINESS-TYPE FUNDS

Year ended February 28, 2006

	Sewer Fund	Water Fund	Total
OPERATING REVENUES:			
Charges for Service	107 089 15	181 359 83	288 448 98
Total Operating Revenues	107 089 15	181 359 83	288 448 98
OPERATING EXPENSES:			
Wages	19 078 61	30 353 40	49 432 01
Fringe Benefits	18 425 35	11 818 64	30 243 99
Administration fees	19 000 00	20 500 00	39 500 00
Operating supplies	2 313 43	16 648 24	18 961 67
Contracted services	4 109 88	4 405 40	8 515 28
Insurance	1 178 40	2 652 40	3 830 80
Utilities	6 566 93	19 198 35	25 765 28
Repairs and maintenance	30 260 00	38 232 75	68 492 75
Total Operating Expenses	100 932 60	143 809 18	244 741 78
Operating Income (loss) before depreciation	6 156 55	37 550 65	43 707 20
Less: depreciation	(30 959 23)	(25 196 12)	(56 155 35)
Operating income (loss)	(24 802 68)	12 354 53	(12 448 15)
NON-OPERATING REVENUES (EXPENSES):			
Interest income	1 976 69	3 274 51	5 251 20
Interest expense	(1 515 00)	(22 125 00)	(23 640 00)
Interfund transfers	3 150 00	(3 150 00)	-
Total Non-operating Revenues Expenses	3 611 69	(22 000 49)	(18 388 80)
Change in net assets	(21 190 99)	(9 645 96)	(30 836 95)
Net assets, beginning of year	833 248 16	438 028 45	1 271 276 61
Net Assets, End of Year	812 057 17	428 382 49	1 240 439 66

The accompanying notes are an integral part of these financial statements.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS-TYPE FUNDS  
Year ended February 28, 2006

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	105 228 51	181 406 76	286 635 27
Cash payments to suppliers for goods and services	(81 462 67)	(113 059 75)	(194 522 42)
Cash payments to employees for services	(19 078 61)	(30 353 40)	(49 432 01)
Net cash provided (used) by operating activities	4 687 23	37 993 61	42 680 84
<b>Cash flows from noncapital financing activities:</b>			
Transfers in (out)	3 150 00	(3 150 00)	-
Net cash provided (used) for noncapital financing activities	3 150 00	(3 150 00)	-
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of fixed assets	(13 250 00)	-	(13 250 00)
Principal payments on special assessments receivable	5 502 45	-	5 502 45
Principal paid on bond maturities	(30 000 00)	(30 000 00)	(60 000 00)
Interest paid on bonds	(1 515 00)	(22 125 00)	(23 640 00)
Net cash provided (used) for capital and related financing activities	(39 262 55)	(52 125 00)	(91 387 55)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest income	1 976 69	3 274 51	5 251 20
Net cash provided (used) by operating Activities	1 976 69	3 274 51	5 251 20
Net increase (decrease) in cash	(29 448 93)	(14 006 88)	(43 455 51)
Cash beginning of year	207 339 74	279 592 58	486 932 32
Cash End of Year	177 891 11	265 585 70	443 476 81

The accompanying notes are an integral part of these financial statements.

VILLAGE OF BRECKENRIDGE  
 Gratiot County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS-TYPE FUNDS

Year ended February 28, 2006

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO			
NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income (loss) from operations	(24 802 68)	12 354 53	(12 448 15)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:			
Depreciation	30 959 23	25 196 12	56 155 35
(Increase) decrease in receivables	(1 860 64)	46 96	(1 813 71)
Increase (decrease) in payable	<u>391 32</u>	<u>396 03</u>	<u>787 35</u>
Net Cash Provided (Used) in Operating Activities	<u>4 687 23</u>	<u>37 993 61</u>	<u>42 680 84</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Breckenridge, Gratiot County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Breckenridge. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business type funds are reported as separate columns in the fund financial statements.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering good in

connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Property Taxes (continued)

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on September 14. The Village 2005 tax roll millage rate was 17.7338 mills, and the taxable value was \$18,149,238.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	50 - 200 years
Furniture and equipment	6 - 50 years

Compensated Absences (Vacation and Sick Leave)

The estimated current portion of the liability for vacation benefits attributable to the Village's governmental funds is recorded as an expenditure and liability in the respective funds. The long-term portion is recorded in the general long-term debt account group. The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund. Employees may accumulate a limited number of days of vacation leave and are paid for unused vacation leave upon termination of employment. Employees receive sick leave but it does not vest and it is not paid upon termination of employment.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2005, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Village's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Village's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$649,641.74.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated two banks for the deposit of Village funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Village's deposits and investments are in accordance with statutory authority.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2006

Note 3 – Deposits and Investments (continued)

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>1 130 223 06</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	147 151 20
Uninsured and Uncollateralized	<u>990 449 87</u>
Total Deposits	<u>1 137 601 07</u>

The Village of Breckenridge did not have any investments as of February 28, 2006.

Note 4 – Capital Assets

Capital asset activity of the Village's Governmental and Business-Type activities for the current year was as follows:

	<u>Balance 3/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2/28/06</u>
<u>Governmental Activities:</u>				
Land	71 000 00	-	-	71 000 00
Buildings and Improvements	379 000 00	-	-	379 000 00
Equipment	<u>354 000 00</u>	<u>43 188 74</u>	<u>-</u>	<u>397 588 74</u>
Total	804 000 00	43 188 74	-	847 588 74
Accumulated Depreciation	<u>(177 611 00)</u>	<u>(20 336 00)</u>	<u>-</u>	<u>(197 947 00)</u>
Net Governmental Capital Assets	<u>626 789 00</u>	<u>22 852 74</u>	<u>-</u>	<u>649 641 74</u>

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2006

Note 4 – Capital Assets (continued)

	<u>Balance 3/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2/28/06</u>
<u>Business-Type Activities:</u>				
Water and Sewer Systems	2 731 786 70	13 250 00	-	2 745 036 70
Accumulated Depreciation	<u>(1 404 509 78)</u>	<u>(56 155 35)</u>	-	<u>(1 460 665 13)</u>
Net Business-Type Capital Assets	<u>1 327 276 92</u>	<u>(42 905 35)</u>	<u>-</u>	<u>1 284 371 57</u>

Note 5 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 6– Pension Plan

A. Plan Description

The Village has a defined benefit pension plan covering substantially all full-time employees. The plan is operated by the State of Michigan Municipal Employees Retirement System (MERS), which is a cost-sharing multiple-employer retirement system.

The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Benefits vest after 10 years of service. Normal retirement is based on one of the following requirements:

1. Age 60 with 10 or more years of credited service
2. Age 55 with 15 or more years of credited service
3. Age 50 with 25 or more years of credited service

The Village's current year covered payroll and its total current year payroll for all employees amounted to \$286,491.18 and \$375,898.08 respectively.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2006

Note 6– Pension Plan (continued)

B. Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

Total contributions made during the fiscal year ended February 28, 2006, amounted to \$36,224.37.

C. Pension Benefit Obligation

The “pension benefit obligation” (PBO) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure, also known as the actuarial present value of credited projected benefits (APVCPB), is intended to (i) help users assess the plan’s funding status on a going-concern basis, (ii) assess progress being made in accumulating sufficient assets to pay benefits when due, and (iii) allow for comparisons among public employee retirement plans. The APVCPB is independent of the actuarial funding method used to determine contributions to the plan.

The pension benefits obligation was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2.

VILLAGE OF BRECKENRIDGE  
 Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
 February 28, 2006

Note 6– Pension Plan (continued)

C. Pension Benefit Obligation (continued)

At December 31, 2003, for the Village of Breckenridge, the unfunded actuarial accrued liability was \$373,822 determined as follows:

Retirees and beneficiaries currently receiving benefits	417 860
Terminated employees not yet receiving benefits	16 777
Current employees – Accumulated employee contributions including allocated investment income	123 909
Current employees – Employer Financed	<u>1 046 126</u>
Total Actuarial Accrued Liability	1 604 672
Net Assets Available for Benefits, at Actuarial Value (Market Value is \$1,123,899)	<u>1 230 850</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u><u>373 822</u></u>

For the fiscal year beginning March 1, 2005, the annual required contribution is \$41,460 with the amortization factor used of .053632.

Note 7 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Local Street	1 543 23	Major Street	1 543 23
Sewer	<u>11 495 08</u>	Water	<u>11 495 08</u>
Total	<u><u>13 038 31</u></u>	Total	<u><u>13 038 31</u></u>

VILLAGE OF BRECKENRIDGE  
 Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
 February 28, 2006

Note 8 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Balance 3/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 2/28/06</u>
Compensated absences	2 408 32	-	206 56	2 201 76
Contract payable- police car-		22 000 00	4 560 76	17 439 24
Contract payable- office	10 056 46	-	10 056 46	-
Water revenue				
bonds – 1983	335 000 00	-	15 000 00	
320 000 00				
Water revenue				
bonds – 1998	215 000 00	-	15 000 00	200 000 00
General obligation				
bonds- 1996	15 000 00	-	15 000 00	-
Special assessment				
Bonds – 1996	<u>15 000 00</u>	<u>-</u>	<u>15 000 00</u>	<u>-</u>
Totals	<u>592 464 78</u>	<u>22 000 00</u>	<u>74 823 78</u>	<u>539 641 00</u>

Note 9 – Contract Payable- Police Car

On July 20, 2005 the Village obtained a loan from General Motors Acceptance Corporation in the amount of \$22,000.00 to fund the purchase of a new police car. The contract payable requires thirty six monthly payments in the amount of \$684.83 including interest at the rate of 8.00% per annum. As of February 28, 2006, the principal balance outstanding on the contract was \$17,439.24.

Note 10 – Contract Payable – Office

On October 13, 2000, the Village obtained a loan from Chemical Bank & Trust Co. in the amount of \$45,000.00 to partially fund the purchase of a new Village office building. The contract payable requires five annual payments in the amount of \$10,656.70 including interest at the rate of 5.91% per annum. The principal balance on the contract payable was paid off during the year.

VILLAGE OF BRECKENRIDGE  
 Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
 February 28, 2006

Note 11- Water Supply System Revenue Bonds- Series 1983

On January 11, 1983, the Village had issued Water Supply System Revenue Bonds in the amount of \$560,000.00 for the purpose of paying part of the cost of constructing additions and improvements to the water supply system of the Village of Breckenridge. The bonds bear interest at the rate of 5.0%, per annum, payable semi-annually on March 1 and September 1 of each year. Bonds outstanding as of February 28, 2006, were \$320,000.00 and they are recorded in the Water Fund as follows:

	<u>Due September 1</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
	2006	5%	15 000 00
	2007	"	15 000 00
	2008	"	15 000 00
	2009	"	15 000 00
	2010	"	20 000 00
	2011	"	20 000 00
	2012	"	20 000 00
	2013	"	20 000 00
	2014	"	20 000 00
	2015	"	20 000 00
	2016	"	20 000 00
	2017	"	20 000 00
	2018	"	20 000 00
	2019	"	20 000 00
	2020	"	20 000 00
	2021	"	20 000 00
	2022	"	<u>20 000 00</u>
	Total		<u>320 000 00</u>

VILLAGE OF BECKENRIDGE  
Gratiot, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2006

Note 12 - Water Supply System Revenue Bonds – Series 1998

On September 29, 1998, the Village issued \$291,221.00 in water supply system revenue bonds to fund improvements to the water system. The bonds were purchased by the Michigan Municipal Bond Authority. The principal is payable over a twenty year period with interest at the rate of 2.50% per annum. As of February 28, 2006, the outstanding principal balance was \$200,000.00 and it is recorded in the Water Fund.

<u>Due October 1</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
2006	2.50% <sup>a</sup>	15 000 00
2007	“	15 000 00
2008	“	15 000 00
2009	“	15 000 00
2010	“	15 000 00
2011	“	15 000 00
2012	“	15 000 00
2013	“	15 000 00
2014	“	15 000 00
2015	“	15 000 00
2016	“	15 000 00
2017	“	15 000 00
2018	“	<u>20 000 00</u>
Total		<u>200 000 00</u>

Note 13 - 1996 General Obligation Bonds

On June 1, 1996, the Village issued General Obligation Bonds in the amount of \$110,000.00 for the purpose of extending water and sewer lines in the Village. The bonds bear interest at rates that vary from 3.9% to 5.05% per annum payable semi-annually on May 1 and November 1 of each year. Bonds were paid off during the year ended February 28, 2006, and were recorded in the Sewer Fund, with the Water Fund responsible for funding payment of 20% of the debt.

VILLAGE OF BRECKENRIDGE  
 Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
 February 28, 2006

Note 14 - 1996 Special Assessment Bonds

On June 1, 1996, the Village issued Special Assessment Bonds in the amount of \$120,000.00 for the purpose of extending water and sewer lines in the Village. The bonds bear interest at rates that vary from 3.90% to 5.05%, per annum, payable semi-annually on May 1 and November 1 of each year. Bonds were paid off during the year ended February 28, 2006, and were recorded in the Sewer Fund.

Note 15 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 16 – Segment Information for Enterprise Funds

The Village maintains two Enterprise Funds which provide sewer and water services. Segment information for the year ended February 28, 2006, is as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>
Operating revenues	107 089 15	181 359 83
Depreciation expense	30 959 23	25 196 12
Operating income (loss)	(24 802 68)	12 354 53
Change in net assets	(21 190 99)	(9 645 96)
Property, plant and equipment: Additions	13 250 00	-

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
February 28, 2006

Note 16 – Segment Information for Enterprise Funds (continued)

	Sewer Fund	Water Fund
Net working capital	106 593 85	37 617 11
Bonds and contracts payable	-	520 000 00
Total net assets	812 057 17	428 352 49

Note 17 – Transfers In and Transfers Out

For the fiscal year ended, February 28, 2006, the Village made the following interfund transfers:

Fund	Transfers In	Fund	Transfers Out
Local Street	18 612 04	Major Street	18 612 04
Total	18 612 04		18 612 04

Note 18 – Reserved Fund Balances

As of February 28, 2006, the Cemetery Fund had \$120,513.40 in reserved fund balance which is reserved for creating future revenue. As of February 28, 2006, the Sewer Fund had \$97,193.06 in restricted net assets for equipment replacement for debt service. As of February 28, 2006, the Water Fund had \$204,664.07 in restricted net assets, \$42,493.12 for debt service and \$162,170.95 for equipment replacement.

Note 19 – Building Permits

The Village of Breckenridge does not issue building permits. They are handled by Gratiot County.

VILLAGE OF BRECKENRIDGE  
Gratiot County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended February 28, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	310 000 00	315 000 00	321 974 20	6 974 20
Licenses and permits	8 300 00	7 900 00	6 449 08	(1 450 92)
State revenue sharing	167 200 00	167 000 00	162 795 53	(4 204 45)
Charges for services:				
Trash collection	55 000 00	59 000 00	58 260 85	(739 15)
Administrative	56 000 00	56 000 00	56 000 00	-
Tax collection	4 000 00	4 000 00	3 446 45	(533 55)
Other	1 000 00	2 000 00	20 740 19	18 740 19
Fines and forfeits	1 300 00	1 900 00	2 918 69	1 018 69
Interest	2 000 00	2 700 00	3 999 49	1 299 49
Donations	6 000 00	7 000 00	6 150 00	(850 00)
Miscellaneous	<u>37 800 00</u>	<u>36 000 00</u>	<u>16 044 42</u>	<u>(19 955 58)</u>
 Total revenues	 <u>648 600 00</u>	 <u>658 500 00</u>	 <u>658 798 90</u>	 <u>298 90</u>
Expenditures:				
Legislative:				
Village Council	36 000 00	28 000 00	27 337 26	(662 74)
General government:				
Village Manager	61 500 00	61 400 00	59 624 71	(1 775 29)
Financial Administration	110 600 00	110 900 00	110 216 45	(683 55)
Village Hall and grounds	37 000 00	41 600 00	33 991 50	(7 608 50)
Public safety:				
Police protection	221 500 00	210 300 00	209 501 31	(798 69)
Fire protection	8 000 00	9 000 00	8 976 67	(23 33)
Planning and zoning	3 950 00	4 300 00	4 178 15	(121 85)
Public works:				
Department of Public Works	80 600 00	67 900 00	66 330 88	(1 569 12)
Sanitation	61 100 00	55 300 00	54 755 65	(544 35)
Culture and recreation:				
Recreation	8 750 00	8 800 00	7 061 72	(1 738 28)
Capital outlay	69 700 00	44 000 00	43 188 74	(811 26)
Debt Service	<u>20 000 00</u>	<u>17 000 00</u>	<u>16 327 96</u>	<u>(672 04)</u>
 Total expenditures	 <u>718 700 00</u>	 <u>658 500 00</u>	 <u>641 491 00</u>	 <u>(17 009 00)</u>

VILLAGE OF BRECKENRIDGE  
 Gratiot County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
 Year ended February 28, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Excess (deficiency) of revenues over expenditures	(70 100 00)	-	17 307 90	17 307 90
Other financing sources (uses):				
Loan proceeds	-	-	22 000 00	22 000 00
Opening transfers in	-	-	-	-
Opening transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>22 000 00</u>	<u>22 000 00</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(70 100 00)	-	39 307 90	39 307 90
Fund balance, March 1	<u>70 100 00</u>	<u>-</u>	<u>194 772 57</u>	<u>194 722 57</u>
Fund Balance, February 28	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>234 080 47</u></u>	<u><u>234 080 47</u></u>

VILLAGE OF BRECKENRIDGE  
 Gratiot County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND  
 Year ended February 28, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	72 000 00	77 700 00	81 661 89	3 961 89
Interest	<u>500 00</u>	<u>300 00</u>	<u>331 21</u>	<u>31 21</u>
Total revenues	<u>72 500 00</u>	<u>78 000 00</u>	<u>81 993 10</u>	<u>3 993 10</u>
Expenditures:				
Public works:				
Highways and streets	<u>71 600 00</u>	<u>59 000 00</u>	<u>45 146 11</u>	<u>(13 853 89)</u>
Total expenditures	<u>71 600 00</u>	<u>59 000 00</u>	<u>45 146 11</u>	<u>(13 853 89)</u>
Excess (deficiency) of revenues over expenditures	<u>900 00</u>	<u>19 000 00</u>	<u>36 846 99</u>	<u>17 846 99</u>
Other financing sources (uses):				
Operating transfers out	<u>(17 000 00)</u>	<u>(19 000 00)</u>	<u>(18 612 04)</u>	<u>387 96</u>
Total other financing sources (uses)	<u>(17 000 00)</u>	<u>(19 000 00)</u>	<u>(18 612 04)</u>	<u>387 96</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(16 000 00)</u>	<u>-</u>	<u>18 234 95</u>	<u>18 234 95</u>
Fund balance, March 1	<u>16 100 00</u>	<u>-</u>	<u>125 577 45</u>	<u>125 577 45</u>
Fund Balance, February 28	<u>-</u>	<u>-</u>	<u>143 812 40</u>	<u>143 812 40</u>

VILLAGE OF BRECKENRIDGE  
 Gratiot County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND  
 Year ended February 28, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	25 000 00	25 000 00	28 377 55	3 377 55
Interest	<u>200 00</u>	<u>200 00</u>	<u>174 42</u>	<u>(25 58)</u>
Total revenues	<u>25 200 00</u>	<u>25 200 00</u>	<u>28 551 97</u>	<u>3 351 97</u>
Expenditures:				
Public works:				
Highways and streets	<u>60 700 00</u>	<u>44 200 00</u>	<u>34 146 41</u>	<u>(10 053 59)</u>
Total expenditures	<u>60 700 00</u>	<u>44 200 00</u>	<u>34 146 41</u>	<u>(10 053 59)</u>
Excess (deficiency) of revenues over expenditures	<u>(35 000 00)</u>	<u>(19 000 00)</u>	<u>(5 594 44)</u>	<u>13 405 56</u>
Other financing sources (uses):				
Operating transfers out	<u>17 000 00</u>	<u>19 000 00</u>	<u>18 612 04</u>	<u>(387 96)</u>
Total other financing sources (uses)	<u>17 000 00</u>	<u>19 000 00</u>	<u>18 612 04</u>	<u>(387 96)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(18 500 00)</u>	-	13 017 60	13 017 60
Fund balance, March 1	<u>18 500 00</u>	-	<u>64 115 69</u>	<u>64 115 69</u>
Fund Balance, February 28	<u>-</u>	<u>-</u>	<u>77 133 29</u>	<u>77 133 29</u>

VILLAGE OF BRECKENRIDGE  
 Gratiot County, Michigan

BUDGETARY COMPARISON SCHEDULE – LIBRARY FUND  
 Year ended February 28, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State Revenue sharing	4 000 00	5 000 00	4 683 22	(316 78)
Charges for Services	3 600 00	6 400 00	5 540 64	(859 36)
Fines and forfeits	63 000 00	69 800 00	68 948 47	(851 53)
Interest	2 500 00	4 000 00	3 861 78	(138 22)
Donations	2 000 00	3 000 00	2 515 00	(485 00)
Miscellaneous	-	4 500 00	4 295 22	(204 78)
Total revenues	<u>75 100 00</u>	<u>92 700 00</u>	<u>89 844 33</u>	<u>2 855 67</u>
Expenditures:				
Culture and recreation:				
Library	<u>108 600 00</u>	<u>115 000 00</u>	<u>107 019 82</u>	<u>(7 980 18)</u>
Total expenditures	<u>108 600 00</u>	<u>115 000 00</u>	<u>107 019 82</u>	<u>(7 980 18)</u>
Excess (deficiency) of revenues over expenditures	(33 500 00)	(22 300 00)	(17 175 49)	5 124 51
Fund balance, March 1	<u>33 500 00</u>	<u>22 300 00</u>	<u>126 458 32</u>	<u>104 158 32</u>
Fund Balance, February 28	<u>-</u>	<u>-</u>	<u>109 282 83</u>	<u>109 282 83</u>

VILLAGE OF BRECKENRIDGE  
 Gratiot County, Michigan

BUDGETARY COMPARISON SCHEDULE – CEMETARY FUND  
 Year ended February 28, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Charges for Services	36 100 00	31 600 00	29 558 78	(2 041 22)
Interest	<u>2 000 00</u>	<u>2 700 00</u>	<u>2 719 51</u>	<u>19 51</u>
Total revenues	<u>38 100 00</u>	<u>34 300 00</u>	<u>32 278 29</u>	<u>(2 021 71)</u>
Expenditures:				
General Government:				
Cemetery	<u>43 200 00</u>	<u>34 300 00</u>	<u>30 818 06</u>	<u>(3 481 94)</u>
Total expenditures	<u>43 200 00</u>	<u>34 300 00</u>	<u>30 818 06</u>	<u>(3 481 94)</u>
Excess (deficiency) of revenues over expenditures	(5 100 00)	-	1 460 23	1 460 23
Fund balance, March 1	<u>5 100 00</u>	<u>-</u>	<u>128 193 78</u>	<u>128 193 78</u>
Fund Balance, February 28	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>129 654 01</u></u>	<u><u>129 654 01</u></u>

VILLAGE OF BRECKENRIDGE  
 Gratiot County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS  
 February 28, 2006

<u>Assets</u>	<u>M.V.H Major Street</u>	<u>M.V.H Local Street</u>	<u>Library</u>	<u>Cemetery</u>
Cash in bank	132 033 36	70 572 35	109 495 98	129 743 99
Petty cash	-	-	200 00	-
Due from State of Michigan	13 412 26	5 107 70	-	-
Due from other funds	<u>-</u>	<u>1 543 23</u>	<u>-</u>	<u>-</u>
Total Assets	<u>145 445 62</u>	<u>77 223 28</u>	<u>109 695 98</u>	<u>129 743 99</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	89 99	89 99	413 15	89 98
Due to other funds	<u>1 543 23</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1 633 22</u>	<u>89 99</u>	<u>413 15</u>	<u>89 98</u>
Fund balances:				
Reserved	-	-	-	120 513 40
Unreserved:				
Undesignated	<u>143 812 40</u>	<u>77 223 28</u>	<u>109 695 98</u>	<u>129 743 99</u>
Total fund balances	<u>143 812 40</u>	<u>77 133 29</u>	<u>109 282 83</u>	<u>129 654 01</u>
Total Liabilities and Fund Balances	<u>145 445 62</u>	<u>77 223 28</u>	<u>109 695 98</u>	<u>129 743 99</u>

Total

441 845 68

200 00

18 519 96

1 543 23

462 108 87

683 11

1 543 23

2 226 34

120 513 40

339 369 13

459 882 53

462 108 87

VILLAGE OF BRECKENRIDGE  
 Gratiot County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS

Year ended February 28, 2006

	<u>M.V.H Major Street</u>	<u>M.V.H Local Street</u>	<u>Library</u>	<u>Cemetery</u>
Revenues:				
State revenue sharing	81 661 89	28 377 55	4 683 22	-
Charges for services:				
Cemetery	-	-	-	29 558 78
Library	-	-	5 540 64	-
Fines and forfeits	-	-	68 948 47	-
Interest	331 21	174 42	3 861 78	2 719 51
Donations	-	-	2 515 00	-
Miscellaneous	-	-	4 295 22	-
Total revenues	<u>81 993 10</u>	<u>28 551 97</u>	<u>89 844 33</u>	<u>32 278 29</u>
Expenditures:				
General government:				
Cemetery	-	-	-	30 818 06
Public works:				
Highways and streets	45 146 11	34 146 41	-	-
Culture and recreation:				
Library	-	-	107 019 82	-
Total expenditures	<u>45 146 11</u>	<u>34 146 41</u>	<u>107 019 82</u>	<u>30 818 06</u>
Excess (deficiency) of revenues over expenditures	<u>36 846 99</u>	<u>(5 594 44)</u>	<u>(17 175 49)</u>	<u>1 460 23</u>
Other financing sources (uses):				
Operating transfers in	-	18 612 04	-	-
Operating transfers out	<u>(18 612 04)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(18 612 04)</u>	<u>18 612 04</u>	<u>-</u>	<u>-</u>

Total

114 722 66

29 558 78

5 540 64

68 948 47

7 086 92

2 515 00

4 295 22

232 667 69

30 818 06

79 292 52

107 019 82

217 130 40

15 537 29

18 612 04

(18 612 04)

-

VILLAGE OF BRECKENRIDGE  
 Gratiot County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS  
 Year ended February 28, 2006

	<u>M.V.H Major Street</u>	<u>M.V.H Local Street</u>	<u>Library</u>	<u>Cemetery</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	18 234 95	13 017 60	(17 175 49)	1 460 23
Fund balance, March 1	<u>125 577 45</u>	<u>64 115 69</u>	<u>126 458 32</u>	<u>128 193 78</u>
Fund Balance, February 28	<u><u>143 812 40</u></u>	<u><u>77 133 29</u></u>	<u><u>109 282 83</u></u>	<u><u>129 654 01</u></u>

Total

15 537 29

444 345 24

459 882 53

# CAMPBELL, KUSTERER & CO., P.C.

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

March 22, 2006

To the Village Council  
Village of Breckenridge  
Gratiot County, Michigan

We have audited the financial statements of the governmental activities, business type activities and each major fund, of the Village of Breckenridge, Gratiot County, Michigan, as of and for the year ended February 28, 2006, and have issued our report thereon dated March 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Village of Breckenridge's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Breckenridge's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted an inadequate control over cash transactions caused by an inherent lack of segregation of duties which is due to the limited number of office personnel employed involving the internal control over financial reporting and its operation that we consider to be a material weakness.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Council  
Village of Breckenridge  
Gratiot County, Michigan  
March 22, 2006  
Page 2

This report is intended for the information of management and other regulatory agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Campbell, Kusterer & Co., P.C.*  
CAMPBELL, KUSTERER AND CO., P.C.  
Certified Public Accountants

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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

March 22, 2006

To the Village Council  
Village of Breckenridge  
Gratiot County, Michigan

We have audited the financial statements of the Village of Breckenridge, for the year ended February 28, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Village of Breckenridge in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Village Council  
Village of Breckenridge  
Gratiot County, Michigan

For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Village Council  
Village of Breckenridge  
Gratiot County, Michigan

### GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented over the fiscal year ended February 28, 2006. The implementation date of this pronouncement for the Village of Breckenridge began with the year ended February 28, 2006. The daily operations and recording transactions did not change significantly, however, the Village is required to maintain additional records for the year end adjustments to the final presentation format.

### COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated February 28, 2006.

#### SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants